

RATING REPORT

Alpha Insurance Company Limited

REPORT DATE:

December 15, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	A	A
Rating Outlook	Stable	Stable
Rating Date	Dec 07,'16	Dec 15, '15

COMPANY INFORMATION

Incorporated in 1951	External auditors: M/s. KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Ghufraan Memon
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Maudood Ahmad Lodhi
State Life Insurance Corporation – 94%	
Individuals - 6%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria <http://www.jcrvis.com.pk/images/methodology.pdf>

Alpha Insurance Company Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Alpha Insurance Company Limited was incorporated in 1951. State Life Insurance Corporation is the parent company of the organization, possessing 94% stake in the company. Registered office of the company is located in Karachi.</p>	<p>The assigned rating incorporates financial profile and demonstrated support of the parent institution, State Life Insurance Corporation of Pakistan (SLIC), the largest life insurance company in the country & owned by the Government of Pakistan. The assigned rating also reflects adequate capitalization and liquidity profile of Alpha Insurance Company Limited (AICL). Ratings are constrained by persistent trend in underwriting losses, high levels of insurance debt & outstanding claims and room for improvement in overall control environment of the institution.</p> <p>Business Volumes Over the last two years (2014 & 2015), gross premium written by the company have witnessed noticeable decline. As per management, shortfall in business volumes during 2015 is attributable to conservative underwriting practice, poor cotton crop which affected business from Punjab and Sindh and de-listing of the company by one major bank due to delayed settlement of a large claim. While decline in business volumes continued in the ongoing year, some recovery has been noted in 3Q16 on account of initiatives taken by the management including incentive scheme for sales force. Further strengthening of the business development function is warranted for achieving projected business volumes.</p> <p>Reinsurance Reinsurance panel of the company witnessed changes with Labuan Re as the lead reinsurer having a treaty share of 40% followed by PRCL with 35% share. Around 75% of the total business is placed with reinsurers with a rating of A- and above. In order to enhance business volumes, net retention and treaty capacities have witnessed an increase. Moreover, a whole account XoL treaty has been negotiated to replace the existing separate XoL treaties for each segment. With an increase in retention levels cession ratio has witnessed significant decline in the ongoing year. Maximum retention on net account is limited to Rs. 5m for major business segment and is highest at 3.7% of the company's equity for terrorism business. The management expects no significant changes in treaty terms for 2017.</p> <p>Profitability With low business volumes and higher claims ratio, underwriting loss in the ongoing year has increased. Given the projected growth in business volumes, underwriting losses are expected to continue. Over the last five years, the company had managed to post profits on account of support from investment income. However, the company incurred a loss during 1H16 due to increase in underwriting loss and lower investment income on account of decline in interest rates.</p> <p>Liquidity and Capitalization With decline in business volumes, insurance debt in relation to gross premium has increased and is sizeable. Ageing profile of insurance debt has room for improvement. Cash flow from operation has also remained marginal. Overall liquidity profile is supported by sizeable liquid assets in relation to total liabilities Liquid assets coverage of total liabilities is around 2x. Capitalization levels of the company are considered adequate as evident from low leverage indicators and growth in equity base on account of internal capital generation. Capitalization levels are sufficient to cater to the short to medium term growth plans of the company.</p> <p>Corporate Governance Board and management team has witnessed several changes during 2015 and in the ongoing year. Moreover, the position of MD/CEO has witnessed frequent changes. Stability in top management may facilitate the company in achieving its business targets in coming years. Moreover, addressing control weaknesses is also considered important.</p>

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Alpha Insurance Company Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Cash and Bank Deposits	33.1	64.3	75.8
Insurance Debt	110.5	125.5	136.4
Total Assets	974.4	1029.7	1028.3
Net Worth	635.3	603.3	583.7
Total Liabilities	339.1	426.4	444.6
INCOME STATEMENT	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Net Premium Revenue	63.2	90.9	115.1
Net Claims	14.9	53.9	55.8
Underwriting Profit/(Loss)	(39.4)	(71.2)	(59.3)
Other Income	3.2	6.3	4.1
Profit Before Tax	41.1	23.1	103.2
Profit After Tax	31.6	19.5	97.7
RATIO ANALYSIS	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Market Share (Gross Premium) (%)	0.1	0.4	0.5
Cession Ratio (%)	66.2	59.7	56.8
Gross Claims Ratio (%)	40.5	51.2	23.1
Net Claims Ratio (%)	23.7	59.2	48.5
Underwriting Expense Ratio (%)	138.5	119.1	103.0
Combined Ratio (%)	162.3	178.4	151.5
Net Operating Ratio (%)	52.9	104.7	91.8
Insurance Debt to Gross Premium (%)	61.4	57.1	51.4
Operating Leverage (%)	8.9	13.2	17.4
Financial Leverage (%)	17.1	26.8	29.4
Adjusted Liquid Assets to Technical Reserves (%)	628.3	413.9	381.1

INSURER FINANCIAL STRENGTH RATING SCALE & DEFINITIONS

Appendix II

AAA

Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.

AA+, AA, AA-

Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time due to business/economic conditions.

A+, A, A-

High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic conditions.

BBB+, BBB, BBB-

Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.

BB+, BB, BB-

Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.

B+, B, B-

Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.

CCC

Very low capacity to meet policyholder and contract obligations; Risk may be substantial.

CC

Weak capacity to meet policyholder and contract obligations; Risk may be high.

C

Very weak capacity to meet policyholder and contract obligations; Risk may be very high

D

Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

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REGULATORY DISCLOSURES				Appendix III	
Name of Rated Entity	Alpha Insurance Company Limited				
Sector	Insurance				
Type of Relationship	Solicited				
Purpose of Rating	IFS Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: IFS				
	12/07/2016	A	-	Stable	Reaffirmed
	12/15/2015	A	-	Stable	Reaffirmed
	12/10/2014	A	-	Stable	Reaffirmed
	9/30/2013	A	-	Stable	Maintained
	11/14/2012	A	-	Negative	Reaffirmed
	12/30/2011	A	-	Negative	Maintained
	12/3/2010	A	-	Stable	Reaffirmed
Instrument Structure	N/A				
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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